



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
ROWAN COUNTY SHERIFF**

Calendar Year 1998

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Honorable Jack Carter, Rowan County Sheriff

Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Rowan County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Sheriff for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Clyde A. Thomas, Rowan County Judge/Executive
Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance:

- The Sheriff Should Present An Annual Financial Statement To The Fiscal Court And Publish The Financial Statement In Accordance With KRS 424.220
- The Sheriff Should Improve Payroll Procedures
- The Sheriff Should Improve Accounting Procedures
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated January 27, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 27, 2000

ROWAN COUNTY
JACK CARTER, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

Federal Grants:

Community Watch	\$ 9,514	
COPS Grant	9,137	
Lake Patrol	<u>16,000</u>	\$ 34,651

State Fees For Services:

Waiting on Court	\$ 21,119	
Transferring Prisoners	15,271	
Incentive Pay	<u>5,000</u>	41,390

Circuit Court Clerk:

Sheriff Security Service	\$ 22,247	
Arrest Fees	<u>900</u>	23,147

Fiscal Court:

County Contribution of Social Security	\$ 12,534	
Operating Expenses	<u>18,500</u>	31,034

County Clerk - Delinquent Taxes		7,889
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Commission On Taxes Collected		157,971
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Fees Collected For Services:

Auto Inspections	\$ 6,150	
Serving Papers	<u>8,980</u>	15,130

Other:

Carrying Concealed Deadly Weapon Permits	\$ 2,700	
Reimbursements	5,047	
Kentucky Law Enforcement	7,232	
Miscellaneous	<u>1,583</u>	16,562

Interest Earned		2,563
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Borrowed Money:

State Advancement		<u>40,000</u>
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Gross Receipts (Carried Forward)		\$ 370,337
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ROWAN COUNTY
 JACK CARTER, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Gross Receipts (Brought Forward) \$ 370,337

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries \$ 75,344

Part-Time Gross Salaries 53,857

Contracted Services-

Advertising 5,566

Vehicle Maintenance and Repairs 39,874

Radio 52

Supplies and Materials-

Office Materials and Supplies 9,369

Uniforms 7,164

Other Charges-

Community Watch 1,965

Dues 568

Postage 4,138

Bond 427

Transporting Prisoners 2,029

KACP Training Expense 406

COPS Grant 9,137

Carrying Concealed Deadly Weapon Permits 1,760

Computer Software Support 3,300

Miscellaneous 744

Capital Outlay-

Vehicle 6,000 \$ 221,700

Debt Service:

State Advancement 40,000

Total Disbursements

261,700

Net Receipts

\$ 108,637

Less: Statutory Maximum

48,726

Excess Fees Due County for Calendar Year 1998

\$ 59,911

Payments to County Treasurer - January 7, 2000

\$ 8,500

January 18, 2000

50,000

January 27, 2000

1,411

59,911

Balance Due at Completion of Audit

\$ 0

The accompanying notes are an integral part of the financial statement.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent. Hazardous covered employees are required to contribute 7.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.69 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

ROWAN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1998
 (Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 31, 1998, the uncollateralized amount on deposit was \$307,164. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 31, 1998.

	<u>Bank Balance</u>
Collateralized with securities held by the county official's agent in the county official's name	\$ 2,000,000
Uncollateralized and uninsured	<u>307,164</u>
Total	<u><u>\$ 2,307,164</u></u>

Note 4. Notes Payable

A. The office of the Sheriff is liable for an installment loan to Citizens Bank for the purchase of a cruiser. The agreement requires a monthly payment of \$370 for 48 months, to be completed on January 1999. The total balance of the agreement is \$370 as of December 31, 1998.

B. The office of the Sheriff is liable for an installment loan to Morehead National Bank for the purchase of a cruiser. The agreement requires a monthly payment of \$495 for 60 months, to be completed on July 2002. The total balance of the agreement is \$18,506 as of December 31, 1998.

Note 5. Lease

The office of the Sheriff is committed to a lease agreement with Firststar Bank for a vehicle. The agreement requires a monthly payment of \$398 for 60 months to be completed on October 20, 2002. The total balance of the agreement is \$29,779 as of December 31, 1998.

COMMENTS AND RECOMMENDATIONS

ROWAN COUNTY
JACK CARTER, SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1998

STATE LAWS AND REGULATIONS:

- 1) The Sheriff Should Present An Annual Financial Statement To The Fiscal Court And Publish The Financial Statement In Accordance With KRS 424.220

The Sheriff did not present an annual financial statement to the fiscal court nor did he publish a financial statement. KRS 134.310 requires a statement of receipts and disbursements for all funds of the Sheriff's office to be submitted to the fiscal court at the time the Sheriff files and makes his final tax settlement. In addition, KRS 424.220 requires financial statements to be published within 60 days after the close of the calendar year. We recommend the Sheriff present an annual financial statement to the fiscal court and publish the financial statement within 60 days after the close of the year.

Sheriff's Response:

We are starting to do this.

- 2) The Sheriff Should Improve Payroll Procedures

The Sheriff paid his office employees for unused vacation time at the end of the year. The Sheriff's Policy and Procedures manual refers to the County Administrative Code on matters concerning payroll. The County Administrative Code states that employees cannot be paid for unused vacation time. Further, we could not find timesheets for the employees who were paid for this leave, indicating there is no way to know accurate leave balances. We recommend the Sheriff not go against County policy and pay employees for accumulated vacation or annual leave. We also recommend that all employees keep timesheets on which time worked agrees to the amount paid each pay period.

Sheriff's Response:

I was not aware of the County's Administrative Code. In the future, this will be done as a raise in salary. All employees are now keeping timesheets.

- 3) The Sheriff Should Improve Accounting Procedures

The Sheriff prepares a quarterly report for the state which does not agree with bank deposits and withdrawals. This results in an inaccurate financial statement for publication and presentation to the fiscal court. The book receipts and disbursements should be reconciled to the bank deposits and withdrawals on a monthly basis. Also, the Sheriff does not close the bank account and open a new account each calendar year. Therefore it is difficult to determine actual receipts and disbursements for any given fee year. It also makes it difficult for the Sheriff to know how much money he has at any given time. We recommend the Sheriff open a new fee bank account each calendar year and take greater care when preparing the quarterly report to make sure that it balances.

Sheriff's Response:

We have opened a new bank account for the 2000 fee year and accounting procedures will be improved.

ROWAN COUNTY
JACK CARTER, SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 1998

4) The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The Sheriff's deposits were not adequately secured by \$307,164 as of December 31, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to pledge or provide collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. We recommend that the Sheriff require depository institutions to pledge or provide sufficient collateral to protect deposits at all times.

Sheriff's Response:

We will get this increased.

PRIOR YEAR:

The prior year audit was performed by a CPA. The prior year audit recommended the Sheriff present an annual financial statement to the fiscal court. This was not corrected and is commented on in the current year.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Clyde A. Thomas, Rowan County Judge/Executive
Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Rowan County Sheriff as of December 31, 1998, and have issued our report thereon dated January 27, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comments and recommendations.

- The Sheriff Should Present An Annual Financial Statement To The Fiscal Court And Publish The Financial Statement In Accordance With KRS 424.220

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Clyde A. Thomas, Rowan County Judge/Executive
Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 27, 2000

